

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

/092 W

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R 021100Z SEP 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 3594

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

USINT BAGHDAD

C O N F I D E N T I A L KUWAIT 3597

E.O. 11652: GDS

TAGS: ENRG, KU

SUBJ: EVOLVING KNPC-MINISTRY OF OIL RELATIONSHIP

SUMMARY: UNDER MINISTRY OF OIL KAZEMI'S ORGANIZATIONAL CHANGES, KUWAIT NATIONAL PETROLEUM COMPANY, WHICH NOW COMPLETELY OWNED BY GOK, HAS BEEN TABBED TO PLAY CENTRAL ROLE IN OIL AFFAIRS HERE. HOWEVER, WIDE RANGE OF DIFFERENCES BETWEEN SENIOR KNPC MANAGEMENT AND TOP MINISTRY OFFICIALS COULD RESULT IN STRAINS BETWEEN TWO INSTITUTIONS. HOW KNPC-MINISTRY OF OIL RELATIONSHIP DEVELOPS AND HOW KAZEMI HIMSELF HANDLES HIS OWN RELATIONSHIP WITH KNPC COULD HAVE IMPORTANT IMPACT ON MAJOR PETROLEUM-RELATED INDUSTRIAL PROJECTS HERE AND PERHAPS ON

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PETROLEUM MARKETING AS WELL.

END SUMMARY.

1. AS DEPARTMENT AWARE, SINCE HE BECAME MINISTER OF OIL LAST WINTER, ABD AL-MUTTALEB AL-KAZEI HAS CONCENTRATED ON GAINING CONTROL OF THE ENTIRE PETROLEUM ESTABLISHMENT HERE. ONE KEY ELEMENT OF HIS STRATEGY WAS TO ELIMINATE KOGEC AND CREATE A SOMEWHAT SIMILAR COORDINATING BODY UNDER HIS DIRECT CONTROL. ANOTHER IMPORTANT STEP WAS TO NATIONALIZE THE 40 PERCENT OF KNPC THAT HAD BEEN OWNED BY PRIVATE KUWAITI INTERESTS. HAVING DONE THAT KAZEMI INDICATED THAT KNPC WOULD PLAY A DOMINANT ROLE IN OIL AFFAIRS HERE. HE REFERRED TO KNPC AS QUOTE MY RIGHT ARM UNQUOTE.

2. IT DOES APPEAR THAT THE COMPANY WILL PLAY A CONSIDERABLY MORE IMPORTANT ROLE THAN FORMER MINISTER ATEEQI INTENDED. THE EXPANSION OF RESPONSIBILITY AND POWER HAS BEGUN. THERE ARE INDICATIONS, HOWEVER, THAT THERE WILL BE STRAINS BETWEEN KNPC'S CURRENT MANAGEMENT AND THE MINISTRY OF OIL AS WELL AS OTHER IMPORTANT ACTORS ON KUWAIT'S OIL SCENE.

3. OFFICIALS AT KNPC ARE WORKING UNDER ASSUPTION THAT COMPANY WILL HAVE PRIMARY OIL REFINING RESPONSIBILITY. THIS IMPORTANT IF, AS SOME OFFICIALS HAVE SUGGESTED, KUWAIT EVENTUALLY REFINES HALF ITS CRUDE PRODUCTION HERE. MOREOVER, OVER THE NEXT FEW YEARS KNPC WILL EVER-SEE ONE AND PERHAPS TWO MAJOR REFINERY PROJECTS WORTH OVER \$1 BILLION EACH. THEY ALSO ASSUME COMPANY WILL MARKET BOTH REFINED PRODUCTS AND CRUDE OIL. FINALLY, THEY THINK THAT KNPC MAY BE ASKED TO STEP-IN AND MANAGE BILLION DOLLAR GAS UTILIZATION PROJECT. THIS WOULD LEAVE CRUDE PRODUCTION (KOC), TRANSPORTATION (KOTC) AND PETROCHEMICALS (PIC) TO OTHER COMPANIES, BUT KNPC WOULD LIKELY BE DOMINANT AMONG THEM.

4. KNPC OFFICIALS FEAR THAT INEVITABLY THE CLASH BETWEEN THE POLITICAL AND COMMERCIAL ASPECTS OF OIL WILL BE REFLECTED IN STRAINS BETWEEN MINISTRY OF OIL AND KNPC. ALREADY THERE ARE SOME COMPLAINTS THAT MINISTER IS INSERTING HIMSELF TOO DEEPLY INTO THE DAY-TO-DAY OPERATIONS OF KNPC. MORE SERIOUS, IS A FUNDAMENTAL LACK OF RESPECT AND TRUST BY MANY KEY FIGURES IN

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KNPC TOWARD SENIOR MINISTRY OFFICIALS. AS FAR AS WE HAVE BEEN ABLE TO DETERMINE MANAGEMENT OF KNPC IS INTELLIGENT, HARD-WORKING AND HONEST. SENIOR OFFICIALS TAKE PRAGMATIC, NO-NONSENSE APPROACH TO MOST PROBLEMS. THEY ARE CONDITIONED BY DISCIPLINE OF INTERNATIONAL MARKET PLACE. MINISTRY OFFICIALS DO NOT HAVE AS SOLID REPUTATION FOR INTEGRITY OR INTELLIGENCE. MOREOVER, MINISTRY MORE LIKELY TO REFLECT AND REACT TO DOMESTIC

POLITICAL CONSIDERATIONS.

5. AT PRESENT THESE CONCERNS REMAIN BENEATH THE SURFACE. KAZEMI HAS CLEARLY INDICATED HIS INTENTION TO HAVE KNPC PLAY THE CENTRAL ROLE AMONG THE COMPANIES INVOLVED IN PETROLEUM-RELATED AFFAIRS. EMBASSY BELIEVES, HOWEVER, THAT STRAINS COULD BECOME NOTICEABLE UNLESS, OF COURSE, KAZEMI GIVES KNPC COMPLETELY FREE REIN WHICH SEEMS UNLIKELY. IT DOES NOT FOLLOW THAT KAZEMI AND PRESENT KNPC MANAGEMENT WILL CLASH OPENLY AND FIERCELY; MORE LIKELY THEY WILL SEEK COMPROMISES OR AT LEAST TRY TO KEEP FEUDS OUT OF PUBLIC EYE. NEVERTHELESS, THE WAY THE KAZEMI-KNPC RELATIONSHIP EVOLVES WILL HAVE AN IMPORTANT BEARING ON THE SUCCESS WITH WHICH GOK IMPLEMENTS SEVERAL BILLION DOLLARS OF PETROLEUM-RELATED PROJECTS (IN WHICH US COMPANIES CAN EXPECT TO PLAY IMPORTANT ROLE) AND HOW SMOOTHLY IT IS ABLE TO SELL KUWAIT CRUDE OIL AND REFINED PETROLEUM PRODUCTS IN NEAR FUTURE.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, GOVERNMENT MINISTRIES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 SEP 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975KUWAIT03597  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Line Count:** 133  
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**Office:** ACTION NEA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 04 AUG 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <04 AUG 2003 by CunninFX>; APPROVED <24 NOV 2003 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EVOLVING KNPC-MINISTRY OF OIL RELATIONSHIP SUMMARY: UNDER MINISTRY OF OIL KAZEMI'S ORGANIZATIONAL  
**TAGS:** ENRG, KU  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006